

Secret

25X1



DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Biweekly)

State Dept. review completed

USAID review completed

Secret

112

15 June 1970
No. 0424/70

Secret

25X1

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION

Secret

~~SECRET~~CENTRAL INTELLIGENCE AGENCY
Directorate of IntelligenceThe Economic Situation in South VietnamSummary

As of the end of May deliveries of rice from the delta to Saigon still were below the 1969 level. The large quantities of imported rice brought in by the government to halt speculation apparently have stabilized retail prices of domestic rice, but officials are concerned that the availability of imports will add to the difficulty of getting rice out of the delta.

Retail prices in Saigon increased four percent during the two weeks ending 9 June to a level roughly 18 to 20 percent above the average price level for December 1969. Black market currency prices were generally stable during the period, while the price of gold leaf fluctuated.

ANNEX: Monthly and Weekly Currency and Gold
Prices (Graph)

SECRET

SECRET

Rice Situation

1. The South Vietnamese rice market still is not functioning smoothly, and government officials now are concerned that the large amounts of imported rice brought in to halt speculation will hinder the effort to get surplus rice moving out of the delta. Deliveries from the delta through the end of May were about 10 percent below deliveries during the corresponding period of 1969 despite the recent exceptionally large harvest.

2. The farm price of paddy rose steadily during February-April, as delta farmers apparently still preferred holding paddy rather than piasters. While the price of paddy increased, wholesale and retail rice prices in Saigon were steady at high levels and then declined in mid-May as lower-priced imports began to reach the market in quantity. Government stocks of imported rice in Saigon, which dropped from about 80,000 metric tons at the end of April 1969 to only 1,000 tons by the end of February 1970, were up to about 13,000 tons by the end of May and should be considerably enlarged by the arrival of 230,000 tons of imports during May-July.

3. It now appears that merchants have been buying paddy to build up their own stocks and they are holding more than officials had realized. Moreover, merchants are claiming that with higher paddy prices and lower wholesale prices they are unable to make a profit. They have, therefore, asked the government to purchase a substantial amount of rice at a premium. Government officials reportedly are considering such a purchase, and in the meantime have announced a support price for IR 8/5 rice. The "miracle" rice currently is selling for roughly 10 percent less than medium-grade traditional varieties. By setting a support price somewhat higher than the current market level the government hopes to encourage farmers to use more of the high-yield seed during the planting season currently under way. The announcement of the support price on 27 May apparently caused all domestic rice prices to increase somewhat during the week ending 1 June.

SECRET

SECRET

4. The government, as manager of the rice market, clearly is in a bind. It must get rice moving out of the delta without allowing retail prices to go much higher. Saigon rice prices already have increased an average of about 50 percent during the last 12 months. At the same time, the government does not want to flood the market with imports and drive down the prices received by farmers. It appears that if the domestic rice market is to be stimulated, the Ministry of Economy will have to accede to the merchants' request by buying rice from them at a price somewhat higher than the current market level. In order to insulate its hard-pressed employees from even higher rice prices, however, the government will then have to improve and increase the distribution of imported rice through the commissary system.

5. Although the supply and price problems besetting the rice market during recent months were triggered by the decline in government stocks, they have been reinforced by general uncertainty about the government's overall economic policies. Expectations of further inflation and devaluation, which have been in large measure responsible for the low black market value of the piaster and the drawdown in foreign exchange reserves, also have caused farmers and merchants to continue hoarding rice even though they were aware that the government planned to use imports to halt the price spiral. Until the government takes decisive action to deal with basic inflationary pressures, a speculative climate probably will continue to exist and the rice market will be affected by it.

Prices

6. Retail prices in Saigon reportedly increased four percent during the two weeks ending 9 June. According to the embassy, the fighting around Da Lat caused delays in deliveries of vegetables to Saigon, and the beginning of the rainy season has caused an increase in the cost of transporting many items shipped from the delta. As of 9 June the USAID retail price index was an

SECRET

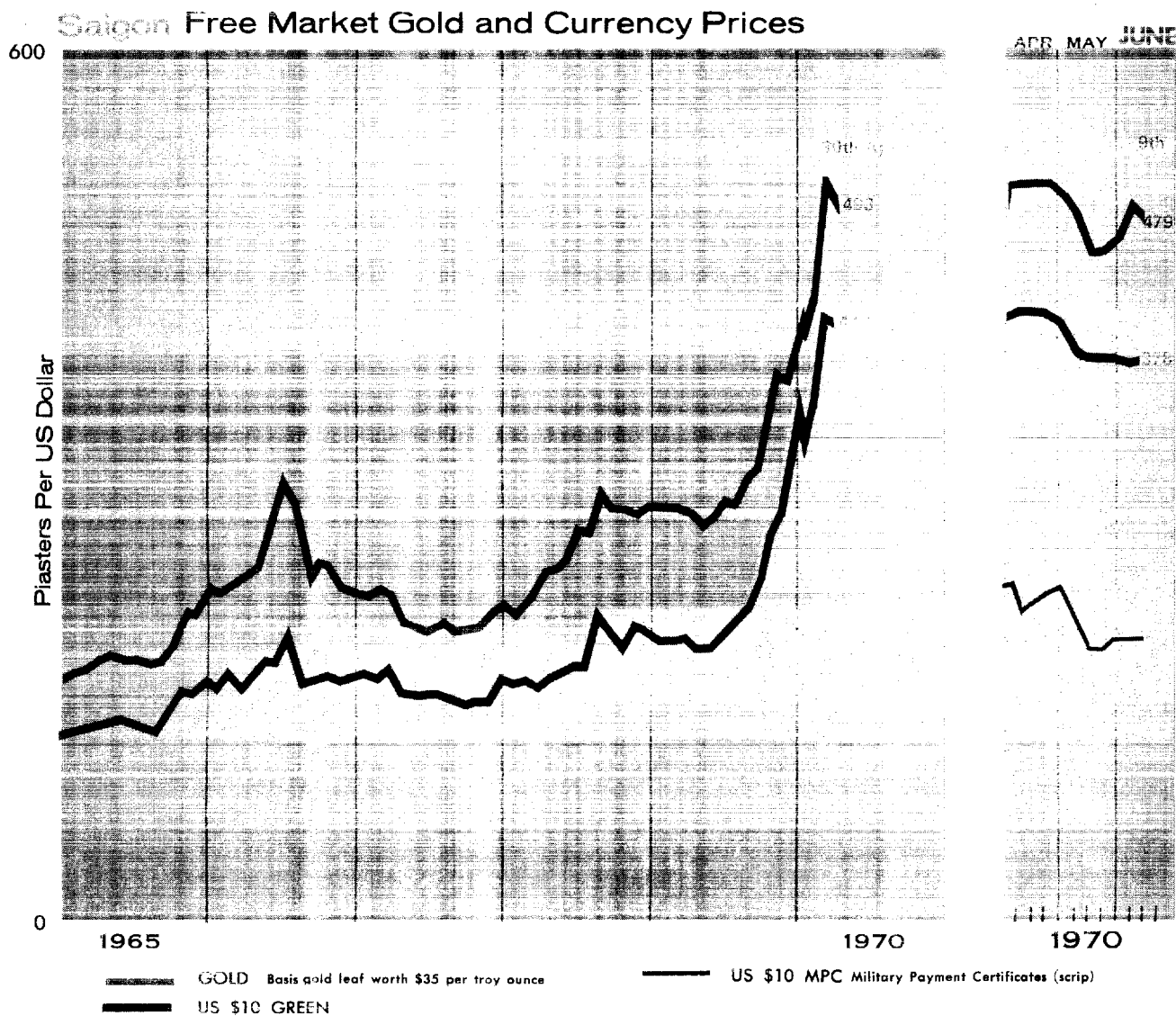
SECRET

estimated 18 to 20 percent above the monthly average index for December 1969.

Currency and Gold

7. Black market currency prices in Saigon were generally stable during the two weeks ending 9 June. The price of dollars declined two piasters to 378 piasters per dollar, and the rate for MPC (scrip) was unchanged at 195 piasters per dollar. The price of a dollar's worth of gold leaf rose from 476 piasters on 25 May to 493 piasters on 1 June, but then declined to 479 piasters the following week. According to embassy officials, black market transactions generally have been at a low level. They attribute the temporary sharp increase in gold prices, as well as the fact that the price of gold has declined less than the price of dollars during recent weeks, to the preference of many Vietnamese for gold rather than dollars as a form of investment while waiting to see what new economic measures the government intends to take. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

SECRET



98925 6-70 CIA

Secret

Secret